Continued growth seen in cold cereal market

By JOHN A. MAXWELL JR.

Cold cereal volume in 1982 was up 1% to 1.5%, to about 2.05 billion pounds. The year's dollar volume grew about 10% and probably approached $3.3 billion.

The current 2%-to-3% tonnage growth trend is a possibility for this year, and price increases of around 6% are expected. The only companies that gained market share in 1982 were General Foods' Post division, Quaker Oats and General Mills.

Both Quaker and Post were up 6% in units. General Mills was up 2% to 3% in units, while Ralston Purina was down 7% to 8% with its branded products. Kellogg was off around 1% in poundage.

While Kellogg continued to lose share over-all, some of its new products, such as Nutri-Grain and Marshmallow Krispies, provided good volume growth. General Mills' growth was led mainly by new products, such as Strawberry Shortcake and Donutz, while most of its other products were relatively stable.

General Foods had the biggest share gains of the industry; it seems to have had excellent success with its Fruit & Fibre, accompanied by good success of Raisin Grape Nuts and Honey Nut Crunch. In the case of Quaker, Life and 100% Natural provided the main upticks.

An examination of what happened to production shows that the principal growth appears to be in the "health area," and it is expected to continue to be the area of major growth.

Additionally, a lot more new products are expected this year; Pac-Man and Donkey Kong already are being introduced. Kellogg has indicated that it will attempt to regain its former market share position of 40%-plus, indicating that more promotions and introductions are forthcoming.#

Mr. Maxwell is with Lehman Bros. Kuhn Loeb Research.

Cold cereal's top ten
(Per cent of market by pounds, dollars)

Brand	1981 Pounds	1981 Dollars	1982 Pounds	1982 Dollars
Corn Flakes (Kellogg)	6.8	4.6	6.8	4.7
Cheerios (General Mills)	5.6	5.9	5.6	5.9
Sugar Frosted Flakes (Kellogg)	5.3	4.9	5.2	4.8
Raisin Bran (Kellogg)	4.5	4.0	4.7	4.2
Chex (Ralston Purina)	4.2	4.0	4.2	4.0
Shredded Wheat (Nabisco)	4.2	3.2	4.0	3.1
Rice Krispies (Kellogg)	3.9	4.3	3.9	4.2
Cap'n Crunch (Quaker Oats)	3.1	3.7	3.2	3.8
Raisin Bran (General Foods)	3.6	3.2	3.1	2.8
Grape-Nuts (General Foods)	3.3	2.6	2.9	2.4
Total	**44.5**	**40.4**	**43.6**	**39.9**

Source: Lehman Brothers Kuhn Loeb Research

Cold cereal market shares
(Per cent of market by pounds, dollars)

Brand	1981 Pounds	1981 Dollars	1982 Pounds	1982 Dollars
Kellogg				
Sugar Frosted Flakes	5.3	4.9	5.2	4.8
Corn Flakes	6.8	4.6	6.8	4.7
Raisin Bran	4.5	4.0	4.7	4.2
Rice Krispies	3.9	4.3	4.2	3.9
Froot Loops	2.3	2.9	2.2	2.8
Special "K"	1.6	2.2	1.5	2.1
Bran products	2.9	2.2	2.7	2.0
Frosted Mini Wheats	1.6	1.6	1.8	1.8
Apple Jacks	1.0	1.5	1.0	1.5
Sugar Smacks	1.5	1.5	1.3	1.3
Sugar Pops	1.2	1.4	1.1	1.3
Product 19	0.9	1.2	0.8	1.1
Nutri-Grain	0.7	0.8	1.0	1.0
Frosted Rice	0.7	0.9	0.6	0.8
Honey Nut Corn Flakes	0.8	0.9	0.6	0.7
Marshmallow Krispies	—	—	0.5	0.7
Cocoa Krispies	0.5	0.7	0.5	0.7
Raisins, Rice & Rye	0.8	0.9	0.5	0.6
Most	0.4	0.5	0.3	0.4
Cracklin Bran	0.4	0.5	0.3	0.4
Graham Crakos	0.2	0.2	—	—
Other	1.4	1.6	1.2	1.4
Total	**39.3**	**39.3**	**38.5**	**38.5**
General Mills				
Cheerios	5.6	5.9	5.6	5.9
Honey Nut Cheerios	2.0	2.3	2.1	2.4
Total	1.7	2.4	1.7	2.4
Lucky Charms	1.8	2.3	1.7	2.2
Wheaties	2.7	2.0	2.5	1.9
Trix	1.5	2.0	1.5	1.9
Golden Grahams	1.3	1.5	1.3	1.3
Crispy Wheats 'n Raisins	1.2	1.4	1.1	1.3
Monsters, etc.	0.7	1.0	0.7	1.0
Cocoa Puffs	0.7	0.8	0.7	0.8
Donutz	0.4	0.5	0.6	0.7
Buc Wheats	0.4	0.5	0.5	0.6
Strawberry Shortcake	—	—	0.4	0.5
Other	0.5	0.4	0.3	0.2
Total	**20.5**	**23.0**	**20.7**	**23.1**
General Foods				
Raisin Bran	3.6	3.2	3.1	2.8
Grape-Nuts	3.3	2.6	2.9	2.4
Fruit & Fibre	0.3	0.4	1.5	1.7
Sugar Crisps	1.6	1.8	1.4	1.6
Honeycombs	1.2	1.6	1.1	1.5
Pebbles	1.3	1.6	1.2	1.4
Post Toasties	1.2	0.8	1.3	0.9
Alpha Bits	0.9	1.0	0.8	0.9
Bran Flakes	0.8	0.8	0.8	0.8
Raisin Grape-Nuts	—	—	0.8	0.8
Grape-Nut & Oat Flakes	0.7	0.6	0.6	0.5
Honey Nut Crunch Raisin Bran	—	—	0.3	0.3
C.W. Post	0.4	0.5	0.2	0.2
Other	0.3	0.1	0.4	0.2
Total	**15.6**	**15.0**	**16.4**	**16.0**
Quaker Oats				
Cap'n Crunch	3.1	3.7	3.2	3.8
Life	2.4	2.2	2.5	2.3
100% Natural	1.4	1.3	1.6	1.5
Corn Bran	0.7	0.6	0.7	0.6
Other	1.0	0.8	0.9	0.7
Total	**8.6**	**8.6**	**8.9**	**8.9**
Ralston Purina				
Sugar Chex	4.2	4.0	4.2	4.0
Cookie-Crisp	0.7	0.7	0.6	0.6
Waffelos	0.7	0.8	0.4	0.4
Dinky Donutz	0.2	0.2	0.3	0.3
Honey Bran	0.3	0.3	0.1	0.1
Other	0.3	0.1	0.3	0.2
Total	**6.4**	**6.1**	**5.9**	**5.6**
Nabisco				
Shredded Wheat	4.2	3.2	4.0	3.1
Other	0.8	0.7	0.9	0.7
Total	**5.0**	**3.9**	**4.9**	**3.8**
Pet				
Heartland	0.1	0.1	0.1	0.1
All others	**4.5**	**4.0**	**4.6**	**4.0**
Grand Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Lehman Brothers Kuhn Loeb Research

Competitors playing catch-up to McDonald's

Breakfast hot in fast-food

By SCOTT HUME

When McDonald's first tested the Egg McMuffin in 1973, its competitors were skeptical. Conventional wisdom held that you couldn't convince consumers to eat breakfast at a fast-food restaurant.

When the McMuffin was rolled out systemwide in 1977, the competition still was unconvinced breakfast was a daypart with a future. The mid-'70s were strong years for the fast-food industry, and most chains felt little pressure to follow McDonald's lead.

Several things have changed since then. Industry growth is flat and competition has increased as the market has become more crowded.

Breakfast, however, according to most estimates, contributes 15% of the average McDonald's unit's sales and an even larger share of its profits. And the question competitors now are asking isn't why they should add breakfast but how.

Wendy's International, for example, just launched its first full-market tv campaign for breakfast in Columbus, O., one of the markets in which it is continuing its test of a breakfast sandwich, french toast and omelets. The menu will be introduced in additional markets throughout the year, and new national advertising is flexible enough to include breakfast support.

According to the CREST (Consumer Research on Eating Share Trends) Report prepared by GDR/CREST Enterprises, Rosemont, Ill., breakfast has been the industry's best performer over the past few years. Between 1978 and 1982, breakfast sales at all restaurant segments rose 53%, and customer counts were up 32%. Total industry sales over the same period increased 34%; total customer traffic dipped 3%.

Given those figures, one industry analyst explains that "the temptation to offer breakfast is too great not to do it."

Breakfast offers a potentially profitable use for facilities during unutilized morning hours and appeals almost entirely to the adult market that demographics say is where fast-food's future lies. But it also means a tough market fight not only with fast-food chains but with coffee-shops (for which breakfast always has been the strongest daypart). As everyone who has tested the water agrees, breakfast could be fast-food's greatest marketing challenge.

McDonald's proved breakfast is viable, but, explains Larry Krueger, vp-marketing for Atlanta-based Arby's, which has been testing breakfast, "it took them several years and several million dollars in advertising support to do it. We don't have that kind of time or money."

McDonald's and the other breakfast pioneer, Rocky Mount, N.C.-based Hardee's, have succeeded with breakfast not only because they were the first to offer it but also because they have made the hefty commitment of marketing dollars necessary to keep it going.

"A lot of chains are trying to add breakfast as a secondary meal," said Karl Martinez, vp-marketing for Columbus, O.-based Rax Restaurants. "But you have to make the long-term commitment to full-year marketing support and increased labor costs for it to succeed."

In addition to being labor-intensive, especially if the breakfast buffet or bar is used (which the Shoney's Big Boy chain has pioneered in the Southeast), breakfast often means addition of a new equipment package.

About 1,000 Burger Kings have added breakfast items and discovered that while broiling may beat frying when it comes to hamburgers, it's hard to broil scrambled eggs. Grills have to be added, which means capital expenditures franchisees are reluctant to make unless they're sure of a return. And 15% of sales is not enough of a return to convince some operators breakfast is worthwhile.

"Another problem with breakfast is that it's awfully hard to provide real product differentiation," said Arby's vp-marketing Larry Krueger. "It's difficult to create the niche or brand item like a Whopper that you can with sandwiches. It's hard to be unique with scrambled eggs."

Whataburger, based in Corpus Christi, Tex., has tried. Its Taquito breakfast item is scrambled eggs and sausage rolled in a tortilla.

With chains forced to offer a basic variety of foods consumers expect in the morning, such as scrambled eggs or biscuits, attracting customers quickly reduces itself to location and price. "And that," Mr. Krueger points out, "is when competition gets cutthroat."

Even when the product and price are right, breakfast just won't go in every location. Urban stores almost have to offer it now to be competitive, but even that can differ by geographical region.

Arby's is considering adding a morning menu, said Mr. Krueger, on a "store-by-store and market-by-market basis," with some units offering biscuits, others croissants.

Wendy's, too, is considering regional variations, with croissants replacing biscuits in the Northeast and breakfast pastries offered in western states.

Hardee's biscuit breakfast has been a success in the chain's primary Southeastern markets and will be in all of its units by December. But David Guckenberg, president of North Central Food Systems, Minneapolis, a Hardee's franchise for the upper Midwest, admits that, although his breakfast sales have begun to pick up, he's "not getting his money's worth."#